



2006 NASPO Cronin Classic Innovation Award Governor's Fiscal Fitness Purchasing Initiative

The Rhode Island Division of Purchases, in tandem with the Governor's Fiscal Fitness Program, has initiated dramatic reform in the area of state procurement over the past three years. The review of the procurement process has been centered on tapping the expertise and experience of state employees as key change agents. In its formation phase, some sixty state employees were recruited as Fiscal Fitness team members and trained in a modified "Six Sigma" review process. A cross-functional analysis team was assigned immediately to the procurement function. This team was challenged with the core premise that no idea was "off limits," that "quick fix" approaches should be avoided, and that the focus of its review was to be centered on achieving efficiency, customer satisfaction, and savings for the state.

At the conclusion of its intensive six-month review, the procurement team produced a portfolio of recommendations. Some of these recommendations were small, others complex, but each was designed to improve procurement effectiveness and efficiency - and to save taxpayer dollars in the process. After a vetting process by senior state management and volunteers from the business community, Governor Donald L. Carcieri approved and endorsed a key group of purchasing projects and priorities, which included:

- **Strategic communications with stakeholders**
- **Establishment of a Statewide Strategic Purchasing Commission**
- **Targeted Strategic Purchasing Initiatives**
- **Implementation of an electronic integrated "procure to pay" purchasing system**
- **Redesign of procurement workflow and forms**
- **Establishment of an NIGP training program for buyers and agency staff**
- **Increased participation by minority, disabled, and small business vendors**

Fiscal Fitness project teams responded in each of these areas by identifying project opportunities of both a short and long-range nature. A detailed plan was created and aggressive timelines and deliverables were put into place for each of the projects and priorities. Teams also formulated communications plans, addressed change management issues, and assured that all ideas were compliant with state statutes and regulations. More importantly, teams remained connected to the portfolio of ideas throughout all stages of implementation.

Phase II of Fiscal Fitness was launched in February of 2006 as a means to build on earlier successes and to identify new opportunities. An integral part of this new phase is to share cost-saving procurement strategies with purchasing officials in Rhode Island's 39 cities and towns. To that end, a "road show" has been launched to increase communications and cultivate an ongoing dialogue centering on purchasing issues. A survey tool was also developed to seek feedback from purchasing officials as to the products or services in which leveraged purchasing with the state would be most beneficial. The early response to this initiative has been very positive.

The scope of these efforts across the state operating environment have been far-reaching and the results impressive. The procurement program has realized demonstrated cost savings of \$9 million in FY 2005, \$13.2 million through the current fiscal year, and is projected to save more than \$15.4 million in FY 2007. Specific background and examples associated with these savings have been presented in the full award application summary and informational attachments.

Fiscal Fitness is now leaner in its staff, with most original staff having returned to their "home" agencies and departments. The mission of the Program, however, remains focused on pursuing innovative ways to deliver government services to the people of Rhode Island in the most efficient and cost-effective manner possible.

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Extended Summary**

The Fiscal Fitness team has been immersed in a comprehensive review of state government since 2003. The initiative coined "The Big Audit" has evolved into a detailed analysis of processes, procedures, and areas of potential improved efficiency. "Why do we do it this way?" has probably been asked at water coolers throughout Rhode Island's state departments and agencies in years past, but now an environment had been created to respond to the larger question: "Is there a better way to do this?" One area certainly ripe for innovation and offering high dividends for success was procurement of goods and services. Fiscal Fitness first sought to "put our own house in order," by learning from successful strategies both in and out of government, and then creating a network to share this information on a larger scale. The following seven tenets form the foundation of the strategy focused on building an optimal procurement system for Rhode Island.

- **Strategic communications with stakeholders**

Reaching out to state employees, citizens, municipalities, and school districts is a vital element in cultivating opportunities and sharing strategies for cost saving projects on a statewide basis.

In an April, 2006 statewide email message to state employees, Beverly Najarian, Director of the Rhode Island Department of Administration, thanked and challenged employees to continue the innovation started in the first phase of Fiscal Fitness. Brian P. Stern, Executive Director of Administration and Purchasing Agent, has appeared on local television business reports and participated in numerous community and business forums, communicating the positive inroads occurring in procurement and the potential to achieve even more. Dan Majcher, Director of the Fiscal Fitness Program, has designed a "road show" to communicate these inroads directly to municipalities and school districts. A survey tool has also been developed to solicit information on specific procurement areas of priority to purchasers, as well as a commitment to interact regularly on matters of mutual interest. (Attachments A, B, and C)

- **Establishment of a Statewide Strategic Purchasing Commission**

Although Rhode Island's municipalities and school districts have always been permitted to "piggyback" on certain state master price agreements, they have not been involved in the state's strategic planning process or been provided a forum to provide direct input in the specification development process. As noted above, these entities have not been engaged or been able to take full advantage of many contracts and related savings. Legislation introduced by Governor Carcieri this year established the Statewide Strategic Purchasing Commission as a means to include all significant stakeholders in the state's strategic planning process for procurement and to develop contracts to address their needs. Collaboration in such prime sectors as health insurance and energy services should result in enhanced leveraging opportunities. (Attachment D)

- **Targeted Strategic Purchasing Initiatives**

Fiscal Fitness identified key areas within the purchasing pipeline that represented promise for solid savings based on prompt action. As a result, more than fifteen select commodities and services comprising \$300 million in expenditures have been strategically sourced since early 2005. The end result of these purchasing initiatives will be actual savings of more than \$37.7 million through FY 2007. (Attachment E) The commodities and services sourced include health insurance, office supplies, telephone service, copy machines, and overnight delivery services. (Attachment F)

In the arena of health insurance, the structuring of administrative costs related to claims processing was reworked in a three-year contract with United HealthCare in January, 2005. Some 16,500 active state employees and 9,600 retirees receive coverage under the health plan, and the new contract has resulted in savings of \$9.8 million to date as well as projected savings of \$8.7 million in FY 2007 and \$8.5 million in FY 2008. Additional savings have been realized related to administrative costs for vision and dental care coverage, resulting in almost \$870,000 saved to date and another \$1.5 million expected in FY 2007.

Office supplies represent another opportunity for savings. In awarding a contract to W.B. Mason, the state will not only realize savings of about \$4 million on an array of office products over the life of the contract, but additional savings in the form of a rebate check for \$180,000 was received in December, 2005. (Attachment G)

- **Implementation of an electronic integrated “procure to pay” purchasing system**

Historically, the Division of Purchases has been an office “buried in paper” with its staff subjected to plodding through an outdated processing system. Requisitions were manually routed for signature and no established tracking or performance standards existed. In fact, state purchasing was viewed as a major impediment to conducting business instead of a partner that added value. Long waiting periods for state payments hindered vendor participation and often resulted in cash flow problems for smaller bidders. As a result, the state has engaged in implementing several procurement modules of the Oracle Integrated Financial System, which will “go live” on July 1, 2006. During the past ten months, four members of the state purchasing staff have been working full-time in preparation for the launch of this system. Once again, front-line employees have played an integral part in defining process flow and in assisting developers.

This enhancement will result in the elimination of “paper approvals” in favor of electronic action, use of online catalogs, control of rogue spending, timely payments to vendors, and the ability to obtain real-time strategic planning and management reports. Performance metrics will be inherent in the system, and the modernization of the purchasing system will complement related procurement initiatives.

- **Redesign of procurement workflow and forms**

The business process for procurement had not been comprehensively assessed for over a decade. This process was layered with duplicative steps and approvals originally put into place in reaction to individual problems or issues, often overlapping over time. The result of this “band-aid” approach was so laborious that buyers were spending the majority of their time dealing with paperwork instead of adding value. Using a modified “Six Sigma” approach, the Fiscal Fitness team eliminated unnecessary steps in the process that added no value. The savings in time and effort have enhanced workflow and allowed staff to return to core activities such as strategic sourcing, contract management, and customer response functions.

- **Establishment of a training and education program for buyers and agency staff**

The effectiveness and efficiency of Rhode Island’s Division of Purchases hinges on the training, education, and tools it provides to staff. The state’s Purchasing Administrator is a certified trainer for the National Institute of Governmental Purchasing (NIGP), and he has established a training program for the State’s buyers and agency purchasing officials. These classes will also be offered to representatives of the State’s municipalities and school districts. The training program represents an ongoing commitment to staff development at the Division of Purchases.

- **Increased participation by minority, disabled and small businesses**

The Fiscal Fitness team found that many bureaucratic procedures were an impediment to small and disadvantaged firms, and discouraged them from bidding on and being awarded state contracts. The procurement process was changed to make it less cumbersome and time consuming, promoting wider vendor interest. Fiscal Fitness is also sponsoring a small business summit and vendor fair to encourage small and other disadvantaged businesses to participate in vendor opportunities. Additionally, an integrated purchasing system will provide greater access to vendor data and ease of communication. As a result, the Division of Purchases will be better prepared to provide assistance, information, and instruction for wider participation by minority, disabled, and small businesses.

The chronology of events described here depicts accomplishments – some small and some large – initiated by change agents recruited from the offices of Rhode Island state government. It is a process of continuous improvement, a reinvigorated system that will continue to assess the way things are done in order to deliver better government and services to the citizens of Rhode Island.